

AR06

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



Enerchem International Inc.

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R*eport*
1 *994*



Enerchem International Inc. is engaged in the formulation, manufacturing and marketing of a wide range of oil and gas production chemicals including demulsifiers, corrosion, scale and paraffin inhibitors, biocides, paraffin/asphaltene solvents, water clarifiers and stimulation chemicals.

The company operates a research laboratory along with blending, warehouse and office facilities in Nisku, Alberta and at their subsidiary, Enerchem International Corporation, in Midland, Texas.

Enerchem is committed to solving oil and gas production problems through diagnosis, treatment and strong field service follow-up.

Enerchem International Inc. is listed on the Alberta Stock Exchange under the symbol ECH.

.....
The Annual General Meeting of the shareholders

.....
will be held on Thursday, February 2, 1995, at 3:00 p.m.

.....
in the Atrium Room at the Coast Terrace Inn, located at

.....
4440 - Calgary Trail Northbound, Edmonton, Alberta.

.....
If unable to attend, shareholders are requested to complete


.....
and return to the Company the enclosed Proxy Form.
.....



1994 Financial Highlights (unaudited)

	1994	1993	Change

Revenues	\$ 5,203,972	\$ 3,123,540	\$ 2,080,432
Net Income	251,732	300,285	(48,553)
Net Income Per Share	.03	.05	(.02)
Shareholder's Equity	3,113,529	1,578,708	1,534,821



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Presidents' Message

On behalf of the Board of Directors, I am pleased to present the annual report for the year ended August 31, 1994.

The company recorded record sales for the four consecutive quarters which resulted in sales of \$5.2 million for an increase of \$2.1 million or 66% compared to the previous year. An unexpected loss from our U.S. subsidiary of approximately \$130,735 Canadian has reduced our after tax profits to \$251,732 or \$0.03 per share. Initial ownership problems have created this loss, however, these problems have now been rectified and we expect the U.S. subsidiary to return to profitability in 1995.

The company was successful in raising \$1,500,000 through a private placement of a preferred share issue. These funds were used to retire the company's long term debt, assist in paying for the Nisku expansion and the down payment for the U.S. subsidiary.

The acquisition of Petro-Chem Services Corp. of Midland Texas by our wholly owned U.S. subsidiary, Enerchem International Corporation, has now positioned us in the U.S. Southwest markets. This acquisition will also assist us in developing markets in Mexico and South America. Strong emphasis will be placed on the oilwell stimulation business since there is tremendous potential for this type of service in the area.

Enerchem has now signed an agreement to establish a joint venture company in Egypt. It is anticipated that the company will be established prior to the end of 1994 and construction of the blend plant, warehouse and office complex which will be located in Alexandria, Egypt should start sometime in early 1995.

Subsequent to year end, Enerchem International Inc. purchased all of the issued and outstanding shares of Decarson Rentals Inc. Decarson Rentals Inc. rents drill pipes, handling tools, premix tanks, wellsite trailers, etc. to the oil industry in Western Canada. Decarson Rentals has experienced excellent cash flow and profits in the past and we anticipate a substantial contribution to Enerchem's profitability for 1995.

We also advise that subsequent to year end the company has obtained a CIDA grant in the amount of \$440,870 to be used as project support funding for the Ecuador project. A new company, Enerchem Ecuador S.A. was established to market oilfield chemicals primarily in Ecuador and Colombia. We expect this company to be fully operational in Ecuador by the spring of 1995.

Enerchem International Inc. has experienced a tremendous change this past year in terms of size and direction. Management is confident that the ground work that has been accomplished this past year will have a very positive effect on the future growth of your company. The expansion of the blend plant, warehouse, laboratory and office complex in Nisku along with the U.S. acquisition has increased our staff from twenty in 1993 to thirty four as of August 31, 1994. Our research and development team has developed some very exciting products that will be introduced to the market place in the near future and therefore we anticipate substantial growth both domestically and in the international markets. Opportunities have been presented for us to expand into the Far East markets, however, this will be delayed until our other international markets are well established.

We would like to conclude by thanking our employees for their hard work and continued dedication. We would also like to thank you, our shareholders for your continued financial support.

Larry B. Phillips
President and Chief Executive Officer



Auditor's Report to the Shareholders

We have audited the balance sheets of Enerchem International Inc. as at August 31, 1994 and 1993 and the statements of earnings, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at August 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants

October 21, 1994



Statement of Earnings

	1994	1993
Sales	\$5,203,972	\$3,123,540
Cost of Sales	<u>2,878,840</u>	<u>1,370,382</u>
	<u>2,325,132</u>	<u>1,753,158</u>
Expenses		
Salaries and employee benefits	1,092,166	667,022
Administration	596,409	596,134
Depreciation and amortization	275,991	131,166
Interest on long-term debt	52,011	41,997
Interest and bank charges	<u>13,612</u>	<u>24,787</u>
	<u>2,030,189</u>	<u>1,461,106</u>
	<u>294,943</u>	<u>292,052</u>
Other Income		
Other	25,684	5,673
Gain (Loss) on disposal of fixed assets	1,532	4,285
Interest	<u>473</u>	<u>275</u>
	<u>27,689</u>	<u>10,233</u>
Earnings Before Income Taxes	<u>322,632</u>	<u>302,285</u>
Income Taxes - Note 8		
Current	51,600	-
Deferred	<u>19,300</u>	<u>2,000</u>
	<u>70,900</u>	<u>2,000</u>
Net Earnings for the Year	<u>\$ 251,732</u>	<u>\$ 300,285</u>
Net Earnings Per Share	<u>\$ 0.03</u>	<u>\$ 0.05</u>

Statement of Deficit

	1994	1993
Balance at Beginning of the Year	\$ 266,768	\$ 525,887
Net earnings for the year	(251,732)	(300,285)
Dividends	<u>74,054</u>	<u>41,166</u>
Balance at End of the Year	<u>\$ 89,090</u>	<u>\$ 266,768</u>



Balance Sheet

Assets	1994	1993
Current Assets		
Cash	\$ 195,738	\$ -
Accounts receivable	1,317,092	818,718
Inventories	434,831	222,183
Prepaid expenses and deposits	76,843	11,837
	<u>2,024,504</u>	<u>1,052,738</u>
Fixed Assets - Note 2	2,724,768	888,712
Goodwill - Note 3	736,539	808,924
Deferred Development Costs - Note 4	38,927	-
Other Assets	82,493	5,000
	<u>\$ 5,607,231</u>	<u>\$ 2,755,374</u>
Liabilities		
Current Liabilities		
Bank indebtedness - Note 5	\$ -	\$ 365,410
Accounts payable and accrued liabilities	915,999	309,889
Income taxes payable	51,600	-
Current portion of long-term debt - Note 5	222,996	162,746
Current portion of liability on acquisition of subsidiary - Note 6	64,203	47,558
	<u>1,254,798</u>	<u>885,603</u>
Long-Term Debt - Note 5	1,197,538	168,997
Deferred Income Taxes	41,366	22,066
Liability on Acquisition of Subsidiary - Note 6	-	100,000
	<u>2,493,702</u>	<u>1,176,666</u>
Shareholders' Equity		
Share Capital - Note 7		
Common	1,862,733	1,603,476
Preferred	1,339,886	242,000
Deficit	(89,090)	(266,768)
	<u>3,113,529</u>	<u>1,578,708</u>
	<u>\$ 5,607,231</u>	<u>\$ 2,755,374</u>

Signed on Behalf of the Board

Bernard V. Davies

Director

LB Phillips

Director



Statement of Changes in Financial Position

	1994	1993

Cash Provided From (Used In)		
Operating Activities		
Net earnings for the year	\$ 251,732	\$ 300,285
Items not affecting cash		
Depreciation and amortization	275,991	131,166
Gain on disposal of fixed assets	(1,532)	(4,285)
Deferred income taxes	19,300	2,000
	<u>545,491</u>	<u>429,166</u>
Net change in non-cash components of working capital	182,545	(308,370)
	<u>728,036</u>	<u>120,796</u>
Investing activities		
Purchase of fixed assets	(1,337,359)	(128,618)
Proceeds on disposal of fixed assets	17,526	24,319
Acquisition of Petro Chem Service Corporation Assets		
Fixed assets acquired	(738,429)	-
Working capital	(300,863)	-
Other non-current assets acquired	(16,611)	-
Reduction of goodwill - Note 6	35,797	52,442
Deferred development costs	(48,659)	-
Increase in other assets	(66,816)	-
	<u>(2,455,414)</u>	<u>(51,857)</u>
Financing Activities		
Issue of preferred shares for cash	1,500,000	250,000
Issue of common shares for cash	25,800	99,350
Share issue costs	(168,657)	-
Redemption of preferred shares	-	(250,000)
Repayment of long-term debt	(357,695)	(164,243)
Acquisition of Petro Chem Service Corporation Assets		
Increase in long-term debt	698,976	-
Repayment of long-term advances from related parties	-	(25,000)
Dividends	(74,054)	(41,166)
Increase in long-term debt	747,511	17,584
Decrease in liability on acquisition of subsidiary	(83,355)	(52,442)
	<u>2,288,526</u>	<u>(165,917)</u>
Increase (Decrease) in Cash {Bank Indebtedness}	561,148	(96,978)
Cash (Bank Indebtedness) at Beginning of the Year	<u>(365,410)</u>	<u>(268,432)</u>
Cash (Bank Indebtedness) at End of the Year	<u>\$ 195,738</u>	<u>\$(365,410)</u>



1. Accounting Policies

(a) Principles of Consolidation

These consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary Enerchem International Corporation.

(b) Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a first in, first out basis. For work in process and finished goods inventory, cost includes direct labour and an allocation of overhead which can be attributed to production.

(c) Fixed Assets

Fixed assets are recorded at cost and are depreciated over their estimated useful lives on a declining balance basis using the following annual rates:

Parking lot	10%
Building	5%
Laboratory equipment	10%
Office equipment	20%
Plant	20%
Automotive equipment	30%
Oilfield equipment	10%

During the year, the company changed the depreciation rate on Oilfield equipment from 30% to 10%. This change in estimate has been applied prospectively.

(d) Goodwill

The excess of the cost of investments in subsidiaries over the fair market value of their net tangible assets is recorded as goodwill and is being amortized over its estimated life of twenty-five years using the straight-line method.

(e) Deferred Development Costs

Development costs that relate to production of chemical products that have a clearly defined future market are deferred and amortized on a straight-line basis over five years commencing in the year in which sales of the product occur.

(f) Foreign Currency Translation

Foreign Operations

The accounts of the self-sustaining foreign subsidiary company are translated into Canadian dollars on the following bases:

- Assets and liabilities at the exchange rate prevailing at the balance sheet date.
- Revenue and expenses at average exchange rates for the year.



Notes to Financial Statements

2. Fixed Assets

	1994			1993
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 92,060	\$ -	\$ 92,060	\$ 90,000
Parking lot	71,971	3,599	68,372	-
Building	1,324,961	112,607	1,212,354	355,890
Laboratory equipment	160,688	65,907	94,781	303,484
Office equipment	126,727	56,061	70,666	26,953
Plant	307,037	46,348	260,689	6,174
Automotive equipment	708,057	134,167	573,890	101,684
Oilfield equipment	576,944	224,988	351,956	4,527
	<u>\$ 3,368,445</u>	<u>\$ 643,677</u>	<u>\$ 2,724,768</u>	<u>\$ 888,712</u>

3. Goodwill

	1994	1993
Goodwill, at cost	\$ 914,682	\$ 914,682
Less: Accumulated amortization	142,346	53,316
Reduction	35,797	52,442
Unamortized balance	<u>\$ 736,539</u>	<u>\$ 808,924</u>

4. Deferred Development Costs

	1994	1993
Balance, beginning of year	\$ -	\$ -
Amounts deferred in year	48,659	-
Amortization	(9,732)	-
Balance, end of year	<u>\$ 38,927</u>	<u>\$ -</u>

5. Long-Term Debt

Demand loan payable, bearing interest at prime plus 1%, blended monthly payments of \$6,100, due March 1, 2009	\$ 658,003	\$ -
Note payable, bearing interest at 6% , payable in annual instalments of \$93,832 U.S. plus interest, due April 15, 1999 (U.S. \$469,160)	644,063	-
Demand loan payable, bearing interest at prime plus 1%, blended monthly payments of \$7,200, due June 1, 1998	63,555	-



Notes to Financial Statements

5. Long Term Debt Continued

	1994	1993
Note payable bearing interest at 6%, payable in annual instalments of \$8,000 U.S. plus interest, due April 15, 1999 (U.S. \$40,000)	54,913	-
Demand loan payable	-	163,592
Mortgage payable	-	137,188
Automobile loans payable	-	30,963
	<u>1,420,534</u>	<u>331,743</u>
Less: Current portion	222,996	162,746
	<u>\$ 1,197,538</u>	<u>\$ 168,997</u>

Approximate principal repayments due over the next five years, assuming renewal upon similar terms, are as follows:

1995	\$ 222,996
1996	161,125
1997	162,953
1998	164,937
1999	167,092

Demand loans payable and bank indebtedness have the following pledged as collateral:

- (a) demand debentures in the amount of \$3,000,000 and \$1,400,000 covering land and buildings
- (b) general security agreement covering all present and after acquired personal property
- (c) assignment of life insurance covering director in the amount of \$400,000
- (d) assignment of fire insurance

All assets of the U.S. subsidiary have been pledged as collateral for the two U.S. note payables. Total assets of the U.S. subsidiary amounted to \$940,656 U.S. at August 31, 1994.

6. Liability on Acquisition of Subsidiary

On August 13, 1992, the company acquired all of the issued and outstanding shares of Cougar Chemical Ltd. for consideration of \$400,000. The consideration given consisted of \$200,000 cash and the remaining balance due as follows:

October 1, 1993 - \$100,000 if net income before taxes of the subsidiary exceeds \$160,000 for the year ended August 31, 1993.

October 1, 1994 - \$100,000 if net income before taxes of the subsidiary exceeds \$190,000 for the year ended August 31, 1994.

At the company's option, the additional consideration may be paid in cash or common shares of the company. A proportionate payment is due if Cougar's Chemical Ltd.'s net income before taxes is at least 50% of the targeted amount. For the year ended August 31, 1993, cash consideration of \$47,558 was given. At August 31, 1993, the company determined that the amount of \$64,203 is due for the current year. The amount of \$35,797, not required to be paid, has been treated as a reduction of goodwill.



7. Share Capital

(a) Authorized

Unlimited number of common shares

20,000,000 non-voting, preferred shares, rights to be determined upon issue

100,000 - 10% cumulative non-voting, redeemable, retractable, convertible, Series A preferred shares

30,000 - 11% cumulative non-voting, redeemable, retractable, convertible, Series B preferred shares

150,000 - 8% cumulative non-voting, redeemable, retractable, convertible, Series C preferred shares

(b) Issued

Common	1994		1993	
	#	\$	#	\$
Balance at beginning of the year	5,558,706	1,603,476	5,337,706	1,620,493
Issue of shares upon private placement	-	-	216,000	97,200
Issue of shares upon exercise of stock options	60,000	25,800	5,000	2,150
Conversion of Series A preferred shares to common	242,000	242,000	-	-
	<u>5,860,706</u>	<u>1,871,276</u>	<u>5,558,706</u>	<u>1,719,843</u>
Less: Share issue costs	-	(8,543)	-	(116,367)
	<u>5,860,706</u>	<u>1,862,733</u>	<u>5,558,706</u>	<u>1,603,476</u>
 Preferred				
Balance at beginning of the year	24,200	242,000	-	-
Issue of Series C shares	150,000	1,500,000	-	-
Issue of Series A shares	-	-	24,200	242,000
Conversion of Series A shares to common	(24,200)	(242,000)	-	-
	<u>150,000</u>	<u>1,500,000</u>	<u>24,200</u>	<u>242,000</u>
Less: Share issue costs	-	(160,114)	-	-
	<u>150,000</u>	<u>1,339,886</u>	<u>24,200</u>	<u>242,000</u>

During the year, the company issued 150,000 Series C preferred shares for cash consideration of \$1,500,000. The preferred shares have a cumulative dividend of 8% and are redeemable at \$10 per share. The company has the option to redeem the shares if, after July 31, 1995, the current market price per common share equals or exceeds 150% of the conversion price, or after December 31, 1998. The shares are convertible to common shares prior to December 31, 1998 at the following prices:

On or before January 27, 1996	\$ 1.00
January 28, 1996 to December 31, 1998	1.25

(c) Stock Options

The company has established a Directors' and Management Stock Option Plan and an Employees' Stock Option Plan. A maximum of 10% of the issued and outstanding common shares of the company are reserved for issue under these plans. At August 31, 1994 options were outstanding as follows:



Notes to Financial Statements

(c) Stock Options - Continued

	# of Shares	Exercise Price	Expiry
Directors and management	250,000	\$ 0.43	Jan., 1996
	50,000	0.25	Jan., 1996
	100,000	0.85	June, 1999
	<u>400,000</u>		
Employees	50,000	0.70	Jan., 1996
	45,000	0.80	Jan., 1996
	85,000	0.85	June, 1999
	<u><u>580,000</u></u>		

8. Income Taxes

(a) Provision for Income Taxes

The following table reconciles income taxes calculated at the combined federal and provincial tax rate with the income tax provision in the financial statements.

	1994	1993
Income taxes based on combined basic Canadian federal and provincial tax rate	\$ 140,345	\$ 131,500
Deduction of share issue costs, capitalized for accounting purposes	14,673	10,125
Losses carried forward and applied against income in the current period	(48,395)	(146,205)
Manufacturing and processing rate reduction	(19,739)	-
Investment tax credit claim	(42,823)	-
Non-deductible items	26,839	6,580
	<u>\$ 70,900</u>	<u>\$ 2,000</u>

(b) Income Tax Losses Carried Forward

A subsidiary has incurred non-capital losses of approximately \$94,578 U.S. for income tax purposes, which may be applied against taxable income of future years. The potential future benefit of these income tax losses has not been recognized in the financial statements. If not utilized, these losses will expire in 2009.

9. Lease Commitments

The future minimum lease payments under operating leases amount to \$67,002 (1993 - \$38,808) and for each of the next four years are:

1995 --	\$36,778
1996 --	\$20,740
1997 --	\$5,915
1998 --	\$3,569



Notes to Financial Statements

10. Segmented Information

The company operates solely in the oilfield chemical industry. Operations and identifiable assets by geographic region are as follows:

Geographic Segment

	Canada	U.S.	Middle East	TOTAL
Revenue	\$ 3,648,482	\$ 439,573	\$ 1,115,917	\$ 5,203,972
Net earnings	220,540	(68,126)	99,318	251,732
Identifiable assets	4,315,898	1,291,333	-	5,607,231

11. Joint Ventures

On March 14, 1994, Enerchem International Inc. agreed to enter into a joint venture agreement with Concimex Servicios Generales and Howard Bowman in Ecuador. The company has agreed to contribute \$60,000 U.S. to the venture and is to receive 60% of all profits obtained by the venture. At August 31, 1994, operations in the joint venture had not commenced, and the company had not contributed any funding. Subsequent to year end the company has obtained a CIDA grant in the amount of \$440,870 to be received over the period to June 30, 1996.

On July 4, 1994, the company agreed to enter into another joint venture agreement with Blend Oil Services & Supply in Egypt. The company has agreed to loan the venture \$40,000 and to acquire 800,000 common shares or 40% for nominal consideration. At August 31, 1994, operation in the Joint Venture had not commenced and the company had not contributed any funding.

12. Acquisition

On March 14, 1994, the company incorporated a U.S. subsidiary, Enerchem International Corporation, which purchased the assets of Petro-Chem Service Corporation of Midland Texas, effective April 15, 1994, for total consideration of \$769,160 U.S. The acquisition has been accounted for by the purchase method with results of operations included from the date of acquisition. The cost of the purchase has been allocated to the acquired assets based on their fair values at date of acquisition.

The assets acquired are as follows:

	U.S.
Current assets	\$ 219,160
Fixed assets	537,900
Other non-current assets	12,100
	<u>\$ 769,160</u>

Consideration was by way of:

	U.S.
Cash	\$ 275,000
Accounts payable	25,000
6% note payable, payable in annual instalments of \$93,832 plus interest, due April 5, 1999	469,160
	<u>\$ 769,160</u>



13. Subsequent Events

On September 30, 1994, the company amended its articles of incorporation and authorized 43,826 Series D preferred shares. The preferred shares have a cumulative dividend of 8% and are redeemable at \$10 per share. The company has the option to redeem the shares until September 30, 1998, but must, at a minimum redeem:

On or before September 30, 1995	14,000 shares
1996	14,000 shares
1997	14,000 shares
1998	1,826 shares

The shares are convertible to common shares prior to the redemption dates at the following prices:

On or before September 30, 1995	\$1.40
1996	1.65
1997	1.90
1998	2.40

On September 30, 1994, the company also amended its articles of incorporation and authorized 26,174 Series E preferred shares. The preferred shares have a cumulative dividend of 8% and are redeemable at \$10 per share. The company has the option to redeem the shares until September 30, 1999, but must, at a minimum redeem:

Between September 30, 1997 and September 30, 1998	12,174 shares
Between September 30, 1998 and September 30, 1999	14,000 shares

The shares are convertible to common shares prior to the redemption dates at the following prices:

On or before September 30, 1995	\$1.40
1996	1.65
1997	1.90
1998	2.40
1999	2.85

On September 30, 1994, the company acquired 100% of the shares of Decarson Rentals Inc. of Leduc, Alberta in exchange for the Series D and E preferred shares and cash consideration of \$421,333.

Statement of Changes in Financial Position

For The Six Months ended February 28, 1995
(with comparatives for the six months ended February 28, 1994)

1995 1994

Operating Activities

Cash provided by (used for) operations
Net income for the period
Items not affecting cash
Depreciation and amortization
Loss on disposal of Fixed Assets

Net change in non-cash components
of working capital

Investing Activities

Cash provided by (used for) investing
Purchase of fixed assets
Proceeds on disposal of fixed assets
Acquisition of Decarson Rentals Inc.
Deferred development costs
Increase in other assets
Reduction of goodwill
Decrease in contingent liability

Financing Activities

Cash provided from (used for) financing
Net increase (decrease)
in long term debt
Issue of shares
Decrease in shareholders loan
Dividends

Increase (Decrease) in Cash
Bank indebtedness at beginning of year
Bank indebtedness at end of year

Balance Sheet

As at February 28, 1995
(with comparatives as at February 28, 1994)

1995 1994

Assets

Current Assets
Fixed Assets - cost less accumulated
depreciation
Goodwill-net of accumulated depreciation
Intangible Assets
Other Assets

Liabilities

Current Liabilities
Long Term Debt
Deferred Income Taxes
Contingent Liability

Shareholders' Equity

Share Capital
Issued
6,160,706 common shares
220,000 preferred shares
Deficit

Signed on Behalf of the Board

L.B. Phillips
Director

William
Director

Corporate Directory

Head Office

1400-8 St.
Nisku, AB T9E 7M1
Phone: (403) 955-3388
Fax: (403) 955-2064

Branch Office

5141-54 St.
Drayton Valley, AB
Phone: (403) 542-4563
Fax: (403) 542-4589

Decarson Rentals Inc.

5902-44A St.
Leduc, AB T9E 6M3
Phone: (403) 986-3476
Fax: (403) 986-6466

Enerchem International Corp.

P.O. Box 50010
Midland, Texas 79710
Phone: (915) 682-5025
Fax: (915) 570-7826

Directors and Officers

Larry B. Phillips Director
David F. Potter Director
Kenneth A. Klein Director
Larry B. Phillips President and Chief Executive Officer
Kenneth A. Klein Vice President, Finance

Transfer Agent

The R-M Trust Company
Suite 600 Dome Tower
333-7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Legal Counsel

Davies & Co.
1340 Tower 1, Scotia Place
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

Auditors

Coopers & Lybrand
2700 Oxford Tower
10235- 101 Street
Edmonton, Alberta T5J 3N5

Listing

Alberta Stock Exchange
Calgary, Alberta
Trading Symbol: ECH
United States - Over the Counter
12g-3-2(b)



1995

2nd Quarter Interim Report

For the Six Months ended
February 28, 1995
(with comparatives for the six months
ended February 28, 1994).

CORPORATE PROFILE

On behalf of the Board of Directors, I am pleased to present our interim Financial Statements for the six months ended February 28, 1995.

Revenues for the six months ended February 28, 1995 were \$3,743,222 versus \$2,306,552 for the corresponding year representing an increase of \$1,436,760 or 62%. As the company is now in a fully taxable position we are showing net income of \$139,481 being generated for the six month period as compared to \$117,609 for the previous year where no taxes were paid.

Enerchem continues to show rapid growth in domestic chemical sales. The company has been able to increase market share with the help of additional sales staff and we anticipate this trend to continue for the balance of the year.

Decarson Rentals Inc. has been a strong performer since the acquisition on October 1, 1994 and we fully expect this performance to continue for the remainder of the fiscal year except for the downtime caused by the seasonal road bans.

Enerchem International Corporation of Midland, Texas has continued to show poor results for the six months. The problems associated with this acquisition have now been identified and corrected and we expect that the company will show a modest profit by the year end. The international markets remain strong and we anticipate that the last half of our fiscal year will show strong growth in both revenues and profits. We have hired a Technical Sales Manager for Ecuador and he will be permanently located in Quito. Management will be returning to Egypt in the early spring to finalize some technical details regarding the joint venture project.

Enerchem continues to experience increased revenues and profits and we anticipate that the fiscal year ended August 31, 1995 will be one of record financial performance.

L. B. Phillips
President and Chief Executive Officer

INCOME STATEMENT

For the six months ended February 28, 1995 (with comparatives for the three months ended February 28, 1994).

	1995	1994	CHANGE	% CHANGE
Sales	\$3,743,222	\$2,306,552	\$1,436,670	62%
Cost of Sales	1,464,504	1,269,903	216,572	184%
Gross Margin	2,278,718	1,036,649	21,872	19%
Expenses			(.01)	(50%)
Wages and employee benefits	823,168	394,872	891,548	29%
Administration	756,865	451,480		
Interest on long term debt	66,843	13,194		
Depreciation and amortization	306,315	71,481		
Interest and bank charges	24,622	11,668		
Income Before Other Income	1,977,833	942,695		
Other Income	300,885	93,954		
Income Before Tax	33,296	23,655		
Provision for Income Tax	\$334,181	\$117,609		
Net Income	194,700	\$139,481		
Net income per share	\$.01	\$.02		

FINANCIAL HIGHLIGHTS (UNAUDITED)

	1995	1994	CHANGE	% CHANGE
Revenues	\$3,743,222	\$2,306,552	\$1,436,670	62%
Income before tax	334,181	117,609	216,572	184%
Net Income after tax	139,481	117,609	21,872	19%
Net Income per share	.01	.02	(.01)	(50%)
Shareholders' Equity	4,001,230	3,109,682	891,548	29%



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David F. Potter

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Director

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Listing

Alberta Stock Exchange

Calgary, Alberta

Trading Symbol: ECH

United States - Over the Counter

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